

**UMKHANDLU WASEKHAYA
IMPENDLE
LOCAL MUNICIPALITY**



2019/20 Annual Budget

Prepared in terms of the Local Government: Municipal Management Act
(56/2003): Municipal Budget and Reporting Regulations

30 MAY 2019

**Annual Budget for the Period 01 July 2019 to
30 June 2020**

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1. MAYORAL SPEECH & OVERVIEW

Introduction

Since our election into office in August 2016, our municipality has gone through major challenges both at a political and administrative level. I am proud to say that challenges faced in previous years have been resolved. This is also testament to fact that for the past years, the municipality has been receiving unqualified audit opinions from the Office of the Auditor General. Our major goal is to achieve an unqualified audit opinion without any matters of emphasis. This will thus bear that municipality has moved towards the attainment of the objects of local government as enshrined in the constitution.

I am delighted that through hard work and dedication on the part of council members, management, staff and provincial authorities Impendle Local municipality is able to table the annual budget and on time. Notwithstanding, it has to be acknowledged that this 2019/20 annual budget is tight. It is vulnerable to slight market changes such as fuel increases, salary and other increases.

Public Participation

We have visited all stakeholders even those in remote areas as promised in the previous budget and IDP process during the annual budget process. Already we've had consultative meetings with all property owners on property rates as well as the IDP. The annual budget and tariffs will be advertised widely in the press, the website and on our notice boards. The active involvement of our ward committees in the public participation process last year and during the course of the third quarter of 2018/2019 was commendable. We have to further intensify the involvement of ward committees in the budget and IDP processes as this would continue to entrench participatory democracy in our communities.

Operating Revenue and Expenditure – A4 Revenue by Source – A4

Property rates

- The municipality has budgeted for property rates at 6% inflationary increase albeit National Treasury had indicated a 5,2% increase per. Property rates tariffs are based on the municipal second general valuation roll and supplementary valuation as required by the Municipal Property Rates Act.
- With the exception of State, the municipality has increased the rates tariffs by 40% so that the Municipality aligns itself with other smaller municipalities within the province. A meeting is also scheduled with Public works in this regard and should take place before end June 2019.
- Property rates amounts to R6,6 million rand after considering revenue forgone.
- The phasing out of Public service infrastructure is in its fifth year as amended by the MPRA.

Service Charges-Refuse Removal

- These have also been budgeted at 6% increase after considering vat output payable to SARS.
- Only limited to village residents and business categories

Transfers Recognised-Operational

- The municipality is mostly funded by grants revenue that comprise 83 % of operational revenue.
- Provincial Gazetted Operational allocations are made up as follows: Library Provincialisation of R1,760m, Community Library Services of R211k and Schemes support grant of R1,250m.

Transfers Recognised - Capital

- Capital grant revenue as gazetted amounts to R11,719m and comprises of Municipal Infrastructure Grant from National Treasury.

Investment Revenue

- At 1% of revenue generation excluding DORA allocations, the municipality envies that conditional grants will be utilised in full.
- History has also shown that DORA allocations to be received and before utilisation yield on average interest of over R879 000 per annum as per audited AFS. The municipality has budgeted this line item at R900k.

Other Revenue

- This relates to rentals either land that has not been utilised and office space (Thusong Services Centre). Agreements in place have variable percentage increase and these relate to Home Affairs, Department of Social Development, Education Department, uMgungundlovu District Municipality, Independent Electoral Commission and is maintained as agreed upon.
- Interest earned on outstanding debts have not been moved as municipality is on a huge drive to collect all outstanding monies due from customers. This extends to tracing of customers in all forms and there is a significant movement in this programme.
- Licenses and permits have been budgeted at R53,1k and relate to taxi permits and business licenses.

- Agency services is budgeted at R65k and relates to contractual agreement between the Municipality and Department of Transport: Motor Licensing and is commission based per vehicle license renewal and licensing transaction.
- The R155,6k relates to rates clearance certificates, photocopies and faxes, tender fees, and LGSETA refunds due to training of employees and Councillors. Except for LGSETA revenue, other revenue has been budgeted at 6% increment when compared to previous year.

Expenditure by Type – A4

Employee Related Costs / Councillors Remuneration

- Inflationary increments of 6% for Councillors, Management whilst officials had been budgeted as per circular no. 6/2018 mandate from South African Local Government Bargaining Council and these are at 6,5%.
- The above increment does not take employee notch movements into account. That will be performed once the salary TASK levels are received from SALGA in June/July 2019. This has also been viewed as a much-anticipated standard of living increase across the board.
- The Councillor allowances are budgeted against the existing government gazette no 42134 dated 21 December 2018. Municipal Mayor is budgeted on a full-time basis with a resolution being adopted at full council whilst other councillors on a part time basis as the Municipality is a plenary.
- An additional Special support grant from National Treasury has been made available for the payment of Councillors Remuneration and Ward Committee members. This grant amounts to R1,738m for the current year.
- Senior Management packages are budgeted against the existing government gazette no 42023 dated 08 November 2018.
- Another important factor is the filling of critical vacant posts, per the municipal organogram, in relation to daily operations and for achieving effective service delivery to the community. These posts will be budgeted for as the need to fill them rises.

Debt Impairment / Depreciation & Asset Impairment

- Debt impairment relates to long overdue customer accounts over 90 days. It is a non-cash item and is budgeted at a rate being the difference of the cash the municipality intends to collect and what is not collectable from customers. This line item has been budgeted at R1,9 million.

- Depreciation and asset impairment are budgeted at current year assets to be acquired at different rates and at different procurement stages. Depreciation will always be estimated due to timing differences of procuring municipal assets. When compared to the 2018/19 annual budget, the Municipality has increased its 2019/20 budget to R9,4m incorporating estimated assets impairments.

Finance Changes

- These relate to ABSA loan that was acquired in the financial year 2014/15 for capital expenditure and bank charges. This line item is reasonably budgeted for as amortised.

Transfers & Grants

- Transfers and grants the municipality can afford relate to Free Basic Electricity that is paid to Eskom on behalf of the community.
- The municipality has budgeted R3,3m for this line item as the indigent register gets compiled annually and new members of the community are registered and are eligible to receive the FBE. Another factor to consider is the increase in electricity tariff when Eskom applies to NERSA for such.

OTHER OPERATIONAL EXPENDITURE – A4

Other Expenditure

- Contracted services indirectly have been budgeted at R5,6m which is in accordance with the mSCOA definition of contracted services.
- General expenditure has been split according to the attached schedule as compiled by the municipality. Categories that have been utilised in relating to SA1 are Community, Administration, ICT, etc.

Capital Budget – A5

- Slight increase from previous year as per Divisions of Revenue Act allocations. Capital allocation amounts to R11,719m when compared to R11,572m in previous year relating to MIG.
- Tables SA34b and SA34e are not completed as municipal assets shown on SA36 are new.

The bulk of the operating revenue of the municipality is derived from the equitable share allocation as well as conditional grants from both national and provincial governments. The total annual operating expenditure proposed for Impendle Local Municipality for the 2019/2020 is R58,7m inclusive of non-cash items. Non-cash items amount to R11m made of debt impairment and asset depreciation.

The following are the main operating expenditure areas:

- Staff and Councillors Related Costs - R 32 621 000
- General Expenses – R 8 849 000
- Repairs and Maintenance – R 337 000

Apart from staff costs our annual operating budget focuses on the implementation of the Municipal Property Rates, Provision for depreciation, Loan Repayment, Free Basic Electricity, etc as outlined in the Municipal Integrated Development Plan (IDP).

Repairs and maintenance are budgeted at R337 000 against total operational expenditure due to municipal infrastructure being fairly new and budgets towards these assets will increase in future budgets.

Capital Revenue and Expenditure

The bulk of the capital revenue of the municipality is derived from the following Grants:

Municipal Infrastructure Grant allocation 2019/20 Financial year - R 11 719 000
MIG includes 5% allocated to Project Management Unit (PMU)
COGTA_Provincial funded projects - R Nil

The following is a split of budget into GFS/votes as follows:

	TOTAL REVENUE BUDGET	GFS % over total budget	R 62 972 000
1	Executive and Council	12	R 7 421 280
2	Finance and Administration	41	R 25 865 600
3	Community and Social Services	13	R 8 039 720
5	Planning and development	34	R 21 645 400

	TOTAL EXPENDITURE BUDGET	GFS % over total budget	R 58 739 000
1	Executive and Council	10	R 5 998 110
2	Finance & Administration	50	R 29 300 500
3	Community and Social Services	11	R 6 446 100

4	Planning and development	29	R 16 994 290
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PROVISIONS – A6

- Landfill site rehabilitation provision will still be prevalent albeit being the function of the District Municipality. The municipality is in possession of the landfill site license as the dump site is being utilised.
- Provision for doubtful debts will be has been accommodated but it must be remembered that state debt will be verified in completion soon. This will thus mean increased revenue collection from government.
- Leave provision is monitored and officials are expected to take leave during the year as legislated.
- Internally the Municipality is also on the drive of enhancing revenue collection in that a plan has been put in place that is being monitored weekly by Management in reducing customer debt.

CASH FLOW – A7

- There is an expectation that the municipality will derive about 70% of property rates income during the year. The municipality is collecting on average R316k. State debtors are billed on an annual basis. Through rigorous debt collection strategies and data cleansing and intervention from National Public Works and CoGTA for state debt verification, a higher collection rate is achievable. Strides have been made with Department of Rural Development in relation to property verifications and the municipality is expecting payment from the department
- 100 percentage point has been benchmarked for Service Charges-Refuse removal as it must be borne in mind that the only place where refuse is billed and money collected is the Village.
- Interest on debtors is also targeted at 30% and falls within the ambits of property rates and refuse. Amount budgeted is in consideration that State debt will be reduced after collection from the State.
- Interest on investments and rental of facilities will be collected in full from tenants and finance sector.
- Operational and Capital DoRA allocated grants will be received in full from National and Provincial Treasuries.
- The municipality is in a funded position after adding back non-cash items amounting R11 million.

Conclusion

In conclusion I wish to state that this Annual Budget Speech represents as an Executive Summary of our municipality's 2019/20 to 2021/2022 Financial Years Annual Budget and captures only key factors. Details are distributed with the Annual Budget Report and it is presumed that all members of this Council have acquainted themselves with details thereof.

On behalf of the people of Impendle, I move that the Annual Budget of Impendle Local Municipality for the year 2019/2020 Financial Year and the indicative annual budgets for 2020/2021 to 2021/2022 Financial Years be accepted as tabled.

I thank you

2.1 Vision

2.2 Mission

3. COUNCIL MEMBERS

- HW Cllr SG Ndlela
- Cllr KM Dlamini
- Cllr RT Memela
- Cllr NG Mvelase
- Cllr PP Mtolo
- Cllr SD Dlamini
- Cllr NM Ngubane

- Mr ZC Tshabalala – Acting Municipal Manager
- Ms GS Ngcobo – Manager: Corporate and Community Services
- Mr SL Mkhize – Acting Manager: Infrastructure and Planning Services
- Mr N Mkhize – Acting Manager: Budget and Treasury (Acting Chief Financial Officer)

- Council adopted budget process plan in August 2018
- The Mayor established a Budget Steering Committee in terms of section 4 chapter 2 of Government Gazette No. 31804
- Management, Mayor and extended Budget Steering Committee met to compile this draft annual budget on in February and March 2019.
- Expenditure items were budgeted according to item and vote planning per department and mSCOA.
- DORA allocations from both National and Provincial Treasuries were used to determine the 2019/20 annual allocations to Impendle LM for the annual budget.
- Finance Portfolio Committee met to deliberate on the Budget on the 26th March 2019.
- Council approved the draft annual budget on the 27th March 2019.
- The IDP/Budget roadshows were conducted in April/May 2019.
- Comments and inputs from all stakeholder were considered as previously done per the approved Process Plan before the tabling of the final budget in May 2019.

- Follow up Budget steering committee meeting took place in May 2019 to finalise the 2019/20 Annual Budget.
- The final budget was tabled before Council on the 30th May 2019 following the MFMA provisions.

6. ANNUAL BUDGET APPROACH

- The anticipated 2017/18 Surplus of R4,2m is made available as contribution to OPEX for the 2019/20 annual budget.
- GFS/Standard Classification was acknowledged in the process.
- Powers and functions were used as a guiding tool
- Tariff of charges were escalated by an average of 6% but planning tariffs were not accounted for. These will be accounted on adjustment as the municipality does not foresee a strong building development taking place. Property rates and other tariffs have been adjusted by 6%.
- Company contribution on medical aid was calculated on SALGA's collective agreement where 60% of employee's monthly premium for medical aid is cost to employer. There has been a slight change in medical aid as there is an increase of membership as a result of the December annual change and new applications that were processed.
- Annual operating expenditure budget for 2019/20 was drawn up based on the historical audited Annual Financial Statements. The capital annual budget was drawn up on the gazetted allocations by both National and Provincial Treasuries and the zero-based budget approach.

7. FOCUS AREAS

The annual budget focuses on the following priorities as identified in the IDP:

- Implementation of Municipal Property Rates Act
- Upgrading or construction of Access Roads
- Improvement of Public participation
- Support for Local Economic Development initiatives
- Provision of Free Basic Services
- Development of Human Capital (internally within the municipality and externally in partnership with the Dept of Education and other relevant Stakeholders)
- Upgrading of information and communication systems (internally in the municipality and externally through service providers)
- Electrification Programme
- Libraries and education
- Creation of sustainable jobs

8. EXECUTIVE SUMMARY OF ANNUAL BUDGET FOR THREE CONSECUTIVE YEARS

	2019/2020	2020/2021	2021/2022
REVENUE			
Equitable Share Grant	33 955 000	35 909 000	38 030 000
Conditional Grants-Opex & Capex	20 300 000	18 384 000	24 173 000
Property Rates and other income	8 717 000	9 184 000	9 677 000
Total Revenue	62 972 000	63 477 000	71 880 000

EXPENDITURE			
Salaries and Allowances	28 262 000	28 988 000	30 727 000
General Expenses	26 118 000	26 871 000	33 818 000
Councillors Remuneration	4 359 000	4 599 000	4 853 000
Capital Expenditure	11 719 000	12 124 000	12 708 000
Total Expenditure	70 458 000	72 582 000	82 106 000
Surplus/(Deficit)	-7 486 000	-9 105 000	-10 226 000

NB: The annual budgeted deficit is derived after accounting for non-cash items such as depreciation and asset impairment, debt impairment and property rates income forgone.

9. DoRA ALLOCATIONS FOR 2019/20 FINANCIAL YEAR

Finance Management Act grant-FMG	2 365 000
Equitable Share-ES	33 955 000
Municipal Infrastructure Grant-MIG	11 719 000
Library Grant	1 760 000
Library Services-Cybercadet	211 000
EPWP	1 257 000
Schemes Support	1 250 000
Special Support	1 738 000
Total	54 255 000

10. ANNUAL BUDGET RESOLUTIONS

To be attached as an extract from Council Minutes of a meeting to be held on or before 30th May 2019.

11. TARIFF OF CHARGES

The proposed Impendle Municipal tariff charges are attached hereto as an annexure and have been approved by Council.

12. FUNCTIONAL ANNUAL BUDGETS & SDBIP'S

The Annual Service Delivery and Budget Implementation Plan (SDBIP) will be tabled to the Mayor 14 days after the annual budget approval.

13. ANALYSIS SUPPORTING THE DRAFT ANNUAL BUDGET

Departments-Votes	Annual Revenue Budget	Annual Expenditure Budget
Executive and Council Services	7 421 280	5 998 110
Planning and Infrastructure Services	21 645 400	16 994 290
Community & Social Services	8 039 7200	6 446 100
Finance and Administration	25 865 600	29 300 500
TOTAL	62 972 000	58 739 000

Expenditure items include non-cash items such as depreciation and asset impairment, debt impairment and forgone income.

14. FISCAL OVERVIEW

In order to counter the ever-rising inflation rate we have either decreased or increased the municipal revenue and expenditure accordingly. Property rates and tariffs have increased using the legislated formulae incorporating the necessary MPRA Section 17 rebates and the municipal policy deductions as reviewed. The municipality does anticipate conditional grants that would not be spent by the end of June 2019. These can be the National electrification and Housing funds. The necessary roll-over applications will be done should the municipality be in a position not to spend all its conditional grants before 31 August 2019. The necessary adjustments will be catered for in the adjustments budget once the outcome is known from National Treasury in relation to the anticipated rollovers for 2019/20 financial year. Stringent measures need to be undertaken by the municipality to curb any possible withdrawals as well as expedite service delivery to the community of Impendle.

15. INVESTMENTS

Conditional grant funds are invested on call accounts and utilised when required. Currently Call accounts have been opened with ABSA, Standard Bank and NED Bank to keep each and every conditional grant separately from the municipal primary account. All receipts and payments are made to and from the municipal primary account. These will be closed off on the 30th June 2020 and should there be unspent conditional grants by the 1st July 2020, new call accounts will be opened with the financial institutions offering a better rate of interest.

No	Bank	Account Number
1	NedBank	037881012463000021
2	Standard Bank	636864901
3	Standard Bank	636863484
4	Standard Bank	636863476
5	Standard Bank	258541326-004
6	ABSA	9280671957
7	ABSA	9286205518
8	ABSA	9287282125
9	ABSA	9287813716
10	ABSA	9286914797
11	NedBank	037881012463000023
12	NedBank	037881012463000024
13	NedBank	037881012463000025
14	NedBank	037881012463000026
15	NedBank	037881012463000027
16	NedBank	037881012463000028

16. ANNUAL BUDGET & REVENUE RELATED POLICIES AND PROCEDURES

The following policies were presented to council for review on 27th March 2019 where council took a resolution and approved the financial policies which are as follows:

- Assets Management Policy_V4.1
- Credit Control and Debt Collection Policy_V4.1
- Indigent Policy_V4.1
- Banking and Investment Policy_V4.1
- Supply Chain Management Policy_V4.1
- Tariff Policy_V4.1

- Subsistence and Travelling_V4.1
- Budget Policy_V4.1
- Anti-Corruption Policy_V4.1
- Petty Cash Policy_V4.1
- IT Policy_V4.1
- Accounting Policy_V4.1
- Rates Policy_V4.
- Rates By-Laws_V4.1
- Write-Off's Policy_V4.1
- Virement Policy_V4.1
- Travel Allowance Policy_V4.1

17. COUNCILLOR SALARIES

Councillor	Annual Package	Cell Phone Allowance	Mobile Data Card	Total Remuneration
Mayor/Speaker	797 632	40 800	3 600	842 032
Councillor	252 117	40 800	3 600	296 517
Councillor	252 117	40 800	3 600	296 517
Councillor	252 117	40 800	3 600	296 517
Councillor	252 117	40 800	3 600	296 517
Councillor	252 117	40 800	3 600	296 517
Councillor	252 117	40 800	3 600	296 517
TOTAL	2 310 334	285 600	25 200	2 621 134

Councillor's salaries were calculated by utilising packages obtainable from latest Notice issued by the Minister of Provincial and Local Government in December 2016. These allowances have taken into effect the 6% inflationary increase. Mayor is a full time Councillor as adopted in previous years.

Over and above these allowances, National Treasury has set aside a Special Support grant for the Remuneration of Councillors and Ward Committees at R1,7m.

18. SECTION 54/56 EMPLOYEES PACKAGES

Position	S54 & S56 Annual Packages
Municipal Manager	1 049 241
Manager Financial Services (CFO)	861 482
Manager Infrastructure & Planning	861 482
Manager Corporate & Community	861 482
Total	3 633 687

Sec54 and Sec56 employee salaries were budgeted at inflationary increment of 6% and should be subsequently approved by Council in December 2019.

19. NATIONAL REPORTING FORMS TO SUPPORT THE BUDGET

National Treasury Circular 93, 94 and Schedule A template with other supporting documents are attached herewith.

20. WAY FORWARD

The municipality has to intensively embark on a program to improve its revenue. At present the municipality is largely funded by grants received from Provincial & National transfers. The implementation of the Municipal Property Rates Act is costing the Municipality more money than what the municipality can collect but there is improvement in collection.

COST CONTAINMENT MEASURES

In line with budget Circular 82 and noting the tightness of the budget, the cash flow position is being monitored but the municipality needs to exercise more control in budget. Monitoring the budget effectively and efficiently and procuring goods and services as budget could lead to a more positive position as budgeted. Gone are the days for procuring unbudgeted goods and services and luxuries.

municipal Standard Chart of Accounts (mSCOA) Budgeting

The municipality in its current position has budgeted for the mSCOA reform in the Finance Management Grant from National Treasury.

21. CLOSURE

Impendle Local Municipality has critical resource constraints which if not addressed may strain the administration of the municipality in the short term.

I thank you

22. ANNEXURES

Item Number	Item
1	Annual Budget Analysis with Mayoral Speech
2	National Treasury Circular 93 & 94 (N/A)
3	Annual Budget related Council Resolutions
4	Annual Budget Quality Certificate
5	Annual Budget A Schedules
6	2019/20 Tariffs
7	Comments from Public and other Stakeholders
8	Annual Service Delivery and Budget Implementation Plans (to be tabled to Mayor after Council approval)
9	Annual 2019/2020 Integrated Development Plan
10	Municipal Budget Related Policies
11	Electronic and hardcopy versions of above schedules and annexure's
12	Other Supporting Budget Annexures/Calculations